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Concise summary of principal findings and conclusions contained in the reports prepared by the Board of Auditors for the General Assembly at its sixty-third session

Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly, pursuant to Assembly resolution 47/211, the concise summary of principal findings and conclusions contained in the reports on the audit of the accounts for the financial period ended 31 December 2007, prepared by the Board of Auditors.

* A/63/150 and Corr.1.

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Letters of transmittal

18 July 2008

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(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

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Summary

The General Assembly, in its resolution 47/211, invited the Board of Auditors "to report in a consolidated fashion on major deficiencies in programme and financial management and cases of inappropriate or fraudulent use of resources together with the measures taken by United Nations organizations in this regard". The findings and conclusions included in the present summary are mainly those that relate to the common themes identified in the reports to the General Assembly on 16 organizations audited by the Board. The Board addressed other reports to the Security Council and other governing bodies. The detailed findings and related recommendations that relate to a particular organization can be found in the separate audit report on that organization. A list of the organizations audited by the Board appears in annex I.

In the present report, the Board addresses the following issues: audit reports and opinions; non-expendable property; liabilities for end-of-service and post-retirement benefits; programme expenditure; treasury and cash management; inter-agency coordination; implementation of the International Public Sector Accounting Standards; procurement and contract management; human resources management; information and communications technology; cases of fraud and presumptive fraud; and write-off of losses of cash, receivables and property.

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I. Previous recommendations not fully implemented

1. The Board has highlighted separately in its report on each organization those of its recommendations for the financial periods ended 31 December 2005 and earlier that had not been fully implemented by mid-2008. All 16 organizations and programmes reported upon in the present report and listed in annex I had either not implemented or partially implemented some recommendations.

2. The Board has summarized in an annex to each report the status at the time of its audit in 2008 of each organization's implementation of the Board's recommendations for the financial period ended 31 December 2005. A table summarizing the status of implementation of the recommendations by organization is contained in annex II to the present report. Of the total of 788 recommendations made in previous bienniums (including the recommendations mentioned in paragraph 1 above), 505 (64 per cent) had been fully implemented, 250 (32 per cent) had been partially implemented, 19 (2 per cent) had not been implemented and 14 (2 per cent) had been overtaken by events.

3. Although the Board has noted some progress in the implementation of its recommendations, it encourages the organizations to take action to fully implement all the outstanding recommendations, with emphasis on those dating back to the biennium 2000-2001 and earlier. In individual reports the Board has highlighted, where applicable, specific reasons and challenges relating to delays in implementing certain recommendations. The Board invites the administrations to allocate specific responsibility for the implementation of all recommendations to individuals or divisions and to do so within a predetermined time frame in line with General Assembly resolution 47/211.

II. Issues

A. General concerns

Assistance of Administrations in the conduct of the audit

4. The work of the Board during the biennium 2006-2007 was facilitated by the assistance of the administrations of the United Nations Secretariat and the funds and programmes. However, despite noticeable improvements, there were still instances where the Board's established audit time frames were not adhered to, because, despite the clear imposition of cut-off dates for the closure of financial statements, late adjustments were made to accounts, as well as financial statements. This affected the Board's commitments to the General Assembly and other governing bodies.

Inconsistency in financial statements

5. Despite the fact that all the entities reported upon in the present report apply the United Nations system accounting standards, their financial statements are not always prepared on a common basis, as those accounting standards permit a high degree of flexibility in reporting. Such flexibility renders comparative analyses difficult. As an illustration, the income and expenditure related to the United Nations regular budget are disclosed by certain entities in their financial statements

(e.g. the Office of the United Nations High Commissioner for Refugees (UNHCR)) and not by others (e.g. the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat)).

6. The absence of consolidated financial statements for the United Nations and its related organizations, funds and programmes does not allow for the presentation of the overall financial result of the Organization's operations since a share of the regular budget resources is recognized at the same time as an expenditure in the financial statements of the United Nations and as income in the financial statements of other funds and programmes.

Inconsistent treatment of after-service health insurance liabilities

7. For the first time, liabilities for after-service health insurance benefits were disclosed in the notes to the financial statements and reflected on the face of the financial statements by certain entities. However, as further described in this report (see section II.D), the accounting treatment applied and the form of disclosure are not consistent among all the organizations as regards the liabilities themselves and their funding.

B. Audit reports and opinions

8. The Board of Auditors has audited the financial statements and reviewed the operations of the 16 organizations listed in annex I, in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audits were conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto (ST/SGB/2003/7) and the International Standards on Auditing. Those standards require that the Board plan and perform the audits to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

9. The audits were conducted primarily to enable the Board to form an opinion as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies, whether income and expenditure had been properly classified and recorded in accordance with the relevant financial regulations and rules and whether the financial statements presented fairly the financial position as at the reporting date and the results of the operations for the period under review. The audits included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

10. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under financial regulation 7.5. The reviews focused primarily on the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of the organizations. The Board's audit included various field visits.

11. Arising from these audits, the Board issued short-form reports, which reflected the Board's audit opinions, and long-form reports, which reflected the detailed findings and recommendations of each audit. The long-form reports provided the

basis for the preparation of the present concise report and the conclusions set out herein.

12. Of the 16 organizations listed in annex I, the Board issued:

(a) Unqualified audit opinions for seven entities (United Nations, United Nations Development Programme (UNDP), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), United Nations Office on Drugs and Crime, United Nations Institute for Training and Research (UNITAR), United Nations Children's Fund (UNICEF) and United Nations Joint Staff Pension Fund (UNJSPF));

(b) Modified audit reports with various emphasis of matter paragraphs for nine entities (International Trade Centre UNCTAD/WTO (ITC), United Nations Office for Project Services (UNOPS), International Tribunal for the Former Yugoslavia, International Criminal Tribunal for Rwanda, UNHCR, UNEP, UN-Habitat, United Nations Population Fund (UNFPA) and United Nations University (UNU)).

Table 1
Types of opinion issued by the Board on the financial statements for the financial period ended 31 December 2007

Organization	*Unqualified opinion*	*Emphasis of matter*
United Nations	×	
ITC		×
UNU		×
UNDP	×	
UNICEF	×	
UNRWA	×	
UNITAR	×	
UNHCR		×
UNEP		×
UNFPA		×
UN-Habitat		×
United Nations Office on Drugs and Crime	×	
International Criminal Tribunal for Rwanda		×
International Tribunal for the Former Yugoslavia		×
UNJSPF	×	
UNOPS		×
Total	**7**	**9**

13. For the financial period ended 31 December 2007, the Board issued nine modified reports with emphasis of matter paragraphs and no qualified opinions, compared to three reports with emphasis of matter paragraphs for the financial period ended 31 December 2005.

Modified reports with emphasis of matter paragraphs

International Trade Centre UNCTAD/WTO

14. The Board drew attention to the fact that a negative amount of $20.168 million was reported for the reserves and fund balances in the financial statements of ITC. This situation was due to the initial recognition of end-of-service liabilities in the financial statements, in accordance with General Assembly resolution 61/264. Despite the negative balance, ITC does not face an immediate funding problem, as it meets its obligations for current payments for end-of-service liabilities through ongoing budgetary allocations. Nevertheless, the Board is of the view that ITC should address this funding issue as early as possible.

United Nations Office for Project Services

15. The Board drew attention to the following:

(a) UNOPS had an inter-fund receivable amounting to $9.9 million in 2005 that could not be confirmed by UNDP. The unconfirmed inter-fund balance had increased to approximately $33.9 million as at 31 December 2007. The UNOPS inter-fund account with UNFPA also showed a difference of $0.602 million. Confirmations obtained from five other United Nations agencies indicated differences amounting to $1.03 million. The Board could not confirm 21 balances with other entities that reflected a total difference of $0.6 million;

(b) The Board reported shortcomings in asset management and noted significant errors in asset registers that support the amount of $10.3 million disclosed for non-expendable property in note 14 to the financial statements. UNOPS carried out a comprehensive review of all submissions received from its operations centres and regional offices and made an adjustment of $2.3 million to the value of non-expendable property disclosed. As the detailed review and adjustment were completed subsequent to its detailed fieldwork, the Board was unable to verify the accuracy of the corrections made;

(c) During the UNOPS transition to Atlas in January 2004, there were several instances of balances and transactions relating to projects that were not accurately transferred, resulting in ineffective controls for performing project management and monitoring in Atlas. As a result, UNOPS had not exercised strict reconciliation of its income-received-in-advance account during the biennium, and had charged project overexpenditure to that account, thus underrecording expenditure.

International Tribunal for the Former Yugoslavia and International Criminal Tribunal for Rwanda

16. The Board drew attention to the deficits of $13.47 million for the International Tribunal for the Former Yugoslavia and $38.38 million for the International Criminal Tribunal for Rwanda in their respective reserves and fund balances. In view of the planned closure of both Tribunals in 2010, there is a need to identify the funding sources to be used in the payment of separation benefits to their employees.

Office of the United Nations High Commissioner for Refugees

17. The Board drew attention to:

(a) The fact that it was not provided with a significant number of audit certificates in respect of 2007 expenditure incurred by UNHCR through the national execution modality totalling $287.5 million;

(b) The persistent deficient asset management;

(c) The negative balance of the reserves and funds at the end of 2007 resulting from the recording of end-of-service liabilities.

United Nations Environment Programme

18. The Board drew attention to the fact that it was not provided with the results of the physical inventory count and therefore was unable to corroborate the amount of $17.5 million disclosed in note 13 to the financial statements of UNEP.

United Nations Human Settlements Programme

19. The Board was concerned by the fact that it was not provided the results of a comprehensive physical inventory count and therefore was unable to corroborate the amount of $10.4 million disclosed in note 15 to the financial statements of UN-Habitat.

United Nations Population Fund

20. The Board drew attention to the results reflected in audit reports furnished by nationally executed expenditure auditors and the shortcomings in the UNFPA nationally executed expenditure audit process.

United Nations University

21. The Board is concerned about transfers from the UNU cumulative surplus account to the income account amounting to $7 million, which were made for the purpose of funding the budget for the biennium. Although these transfers did not affect the reserves and fund balances at the end of the biennium, the Board is concerned that such transfers distort the results of operations.

C. Non-expendable property

22. Non-expendable property is defined differently across the United Nations and its funds and programmes. However, from its review of the notes to the financial statements of the United Nations and its funds and programmes, the Board estimated that the aggregate value of non-expendable property totalled approximately $1.2 billion as of 31 December 2007.

23. The Board noted the following examples of deficiencies: (a) the inventory reports included items that could no longer be located or accounted for; (b) there were inconsistencies in the valuation of items; (c) items were not always included in the inventory report; (d) there was an absence of physical counts; (e) there was a lack of property records; (f) personal property receipts were not always issued; and

(g) information was incomplete and inaccurate in the inventory reports of UNEP, UN-Habitat, UNOPS, UNHCR and UNJSPF.

24. These deficiencies, most of which have been pointed out by the Board for several bienniums, are important to address, considering that the valuation of non-expendable property and that its accounting treatment will be profoundly changed with the implementation of the International Public Sector Accounting Standards.

25. The introduction of the International Public Sector Accounting Standards should also be an opportunity for the organizations to adopt harmonized rules for the management and accounting of non-expendable property. The Board indeed found that the existing rules diverged to a great extent from one organization to the other.

D. Liabilities for end-of-service and post-retirement benefits

26. In accordance with General Assembly resolutions 60/255 and 61/264, the organizations were required to change the presentation of their end-of-service and post-retirement liabilities from disclosure in the notes to the financial statements to disclosure on the face of the financial statements. With the exception of UNJSPF, all the organizations reported upon in the present report have, to varying degrees, provided or disclosed their liabilities for their staff who are eligible for various benefits either upon their end of service (compensation for unused vacation days, repatriation benefits, etc.) or after their end of service (after-service health insurance).

27. UNJSPF did not perform an actuarial valuation of its after-service health insurance liabilities and therefore could not disclose any estimates for 2006-2007.

28. The Board was concerned about the lack of uniformity and consistency among the United Nations and its funds and programmes in the accounting for these end-of-service liabilities, which ranged from full disclosure and provision on the face of the financial statements to disclosure in the notes and, in some cases, partial or no disclosure.

29. The aggregate liabilities for end-of-service and post-retirement benefits were estimated to exceed $4.1 billion as at 31 December 2007, of which only $550 million was funded. However, this estimate has severe limitations because of the inconsistent approaches adopted.

30. For all the organizations that disclosed their end-of-service and post-retirement liabilities on the financial statements, the Board validated the after-service health insurance component of the liabilities. This was achieved through reliance on the external actuarial valuation, when such valuation was available, and the Board's own procedures.

31. In his report to the General Assembly (A/61/730), the Secretary-General proposed that the Assembly consider different options to fund the liabilities for after-service health insurance (excluding liabilities for accrued annual leave and unpaid repatriation and relocation entitlements). In its resolution 61/264, the Assembly did not reach any funding decision. It recognized "the complexity of the issue and the significant amount of the liabilities" and requested the Secretary-

General to "present long-term strategies taking into account the various options of financing and to report to it thereon no later than the main part of its sixty-third session".

32. In its previous reports, the Board recommended that the United Nations and its funds and programmes review the funding mechanism for end-of-service and post-retirement benefit liabilities. The Board is of the view that the recording of end-of-service liabilities into the accounts calls for a comprehensive and effective funding strategy, as overall accounting for end-of-service and post-retirement liabilities has been achieved in most cases through an adjustment to reserves and fund balances, which does not constitute a proper funding mechanism. In addition, this adjustment resulted in negative reserves and fund balances in some instances.

33. At the United Nations, end-of-service and post-retirement liabilities have been recorded through an adjustment of $1.96 billion to the reserves and funds balances, which caused them to diminish by approximately half. Reserves and fund balances amounted to $1.40 billion at the end of the 2006-2007 biennium, compared to $2.61 billion at the end of the previous biennium.

34. As at 31 December 2007, UNDP had accrued only $267 million (57 per cent) for after-health service insurance liabilities while the required accrual, based on the latest actuarial valuation, was $466 million. The Board noted that by not making an accrual for the full liability, UNDP was not consistent with certain United Nations agencies and was not fully transparent by not representing a major liability on the face of its financial statements.

35. At UNHCR, the recording of the after-service health insurance liabilities resulted in a $382 million shortfall of income over expenditure and a negative funds and reserves balance of $178 million. According to the report of the fortieth meeting of the Standing Committee, held on 2 October 2007, UNHCR intended to present a proposal regarding the funding of this liability during the forty-second meeting of the Standing Committee, in June 2008. The Board noted that UNHCR could not use the available funds if their usage was specifically restricted under the financial rules for the voluntary funds administered by UNHCR, or if those rules did not contain any provisions concerning funding the termination benefit fund. The Board also noted that even if UNHCR decided to use the unearmarked funds for after-service benefits, they would not be sufficient to cover the total liability.

E. Programme expenditure

36. At UNDP, total expenditure amounted to $9.5 billion, compared with $7.9 billion for the previous biennium, an increase of 20 per cent. A total of $8 billion (84 per cent) was spent on programme/project activities and support costs paid to other United Nations agencies, and $1.3 billion (14 per cent) for the biennial support budget. Moreover, programme expenditure amounted to $8 billion, of which the main components were $1.069 billion for regular resources and $6.783 billion for other resources.

37. A risk-based assessment model was introduced in 2007 at UNDP for nationally executed programme expenditure audits. There were some continued weaknesses in the nationally executed expenditure modality processes and its results. Some audit

reports on nationally executed expenditure reflected control weaknesses in the financial management of nationally executed projects.

38. At UNFPA, the Board noted various deficiencies with regard to the nationally executed expenditure audit process and the reports received from auditors. These concerns included the extent of qualified project audit reports, projects for which no reports were obtained and inconsistent reporting standards. The Board also noted shortcomings in the process of selection and appointment of auditors and discrepancies in the logs and databases of nationally executed expenditure audit results.

39. At UNICEF, the increase in expenditure of $1.31 billion or 35 per cent (total, $5.1 billion), was attributable mainly to the increase of $1.33 billion in programme assistance expenditure. However, the Board noted that cancellations of prior-period obligations were not properly recorded in the accounts. Specifically, outstanding obligations totalling $25.79 million pertaining to the biennium 2004-2005 were incorrectly cancelled against the expenses of the biennium 2006-2007, thus understating the reported expenditure for the current biennium.

40. At UNRWA, total expenditure amounted to $1.31 billion for the biennium 2006-2007, compared with $0.99 billion for the previous biennium, an increase of 32 per cent. Project spending increased by 125 per cent, while emergency appeal spending increased by 60 per cent because of the prevailing programme requirements.

41. At UNHCR, total income amounted to $1.33 billion for the 12-month period ended 31 December 2007, compared with $1.15 billion for the previous 12-month period, a 15.8 per cent increase while total expenditure amounted to $1.35 billion, compared with $1.10 billion for the previous year, a 22.4 per cent increase. The result was an $18.5 million shortfall of income over expenditure.

42. At UNJSPF, total expenditure (comprising benefit payments and administration expenses) amounted to $3.3 billion, compared with $2.8 billion for the previous biennium, an increase of 17 per cent. The excess of income over expenditure was $7 billion. The increase in expenditure of $480 million, or 17 per cent, was due mainly to an increase in the payment of benefits, as the fund membership reflects an ageing trend. The payment of benefits increased by 18 per cent, with the number of retirees increasing by 5.3 per cent.

F. Treasury and cash management

Treasury and investment management

43. The United Nations and several of its funds and programmes (including UNJSPF) managed material short-term or medium-term financial assets. Investment balances, including cash and cash pool, amounted to approximately $44.3 billion as at 31 December 2007, compared to $32.6 billion as at 31 December 2005 (a 36 per cent increase). Taking UNJSPF out of the total amount, the aggregate investment balances, including cash and cash pool, amounted to $14.6 billion as at 31 December 2007, compared to $9.8 billion as at 31 December 2005 (a 49 per cent increase).

44. The Board noted that the amount for cash and term deposits, investments and cash pools is based on different accounting rules and conventions and should thus be considered only an estimate of the total value.

45. Some entities had low cash balances which were due to some inter-fund receivables/payables that were not settled at the end of the biennium.

46. At the United Nations, the Board noted that interest income had tripled from the previous biennium, owing mainly to a large increase in investments and interest rate increases.

47. At UNDP, the Board noted a change in accounting policy on investments. In previous bienniums, UNDP did not include in the financial statements investments administered for certain funds. In the current biennium, UNDP included balances totalling $1.125 billion held in connection with such funds as investments. UNDP also reflected these balances as liabilities in the financial statements.

48. At UNJSPF, the Board noted that income from investments increased by $2.8 billion and reached $7.2 billion for the biennium (compared with $4.4 billion in 2004-2005).

Cash and investment disclosures

49. At UNICEF, the Board noted that the $445 million in investments reported in the statement of assets, liabilities, reserves and fund balances was disclosed only in note 9 as fixed-income securities stated at amortized cost, with the current-period market value estimated at $445.56 million. The account statement for the 12-month period ended 31 December 2007 disclosed that the UNICEF holdings represented various callable notes and bank bonds maturing within one year or more. The Board recommended that the details of the investment portfolio be disclosed, including the market value of the investments under both the short-term and long-term classifications, in accordance with the United Nations system accounting standards obligatory disclosure for investments.

50. At UNJSPF, the Board found that the notes to the financial statements were not clear as to whether third-quarter market values were adjusted by fourth-quarter cash flows. UNJSPF stated that the master record keeper did factor fourth-quarter contributions and other cash activity into the Fund's adjusted market value reported as at 31 December 2007. However, the accounting policy note did not provide clarification on this matter. The Board recommended that the UNJSPF Investment Management Service update its real estate investment disclosure notes.

Cash management

51. The Board noted that for several organizations the statement of cash flows for the biennium ended 31 December 2007 did not consider the cash pools as part of the cash balance. The Board is of the view that it would be more appropriate to reflect the cash pools in the statement of cash flows, in accordance with the United Nations system accounting standards, and recommends that the Administration include the cash pools in the statement of cash flows.

52. At UNHCR, the Board noted a control weakness related to the segregation of duties in the recording of cash accounts in the Management Systems Renewal Project (MSRP). Staff from Treasury had access to the write-off accounts, which

should have been restricted only to the finance staff. The Board recommended that UNHCR address the control weakness related to the MSRP system's entry access to the write-off account so that only authorized staff from the Finance Section could record entries.

Bank reconciliation processes

53. At UNICEF, the Board noted that book reconciling items for unrecorded deposits ($5.71 million) and bank charges ($1.91 million) pertaining to prior periods beginning 15 October 2004 up to 30 November 2007, as well as outstanding cheques that were already stale ($174,859), remained unrecorded as at 31 December 2007.

54. The Board noted after reviewing payment vouchers on cash assistance to Governments that six UNICEF country offices issued payment vouchers that were not supported by official receipts or acknowledged in writing by the Government and/or the implementing partners. The Board recommended that country offices enforce strict compliance with UNICEF finance circular No. 15 (Rev.3) on the issuance of official receipts to acknowledge the receipt of cash assistance.

55. The Board noted that the procedure concerning the closing of field-office bank accounts was not managed properly, as certain unused accounts or other accounts that were closed remained active in the UNHCR accounting system. This indicated that there was a lack of effective communication between the Finance Section and the Treasury. The closing of field-office bank accounts was handled by the Treasury Section, whereas the reconciliation was the responsibility of the Finance Section. The Finance Section had indicated that the distribution of duties between itself and the Treasury would be reviewed when the treasury management system was implemented.

56. In the biennium 2004-2005, the Board raised concerns regarding the bank reconciliation processes in UNDP. In 2006-2007, UNDP addressed some of the significant deficiencies noted. However, there were some residual matters related to the bank reconciliation processes still being addressed.

G. Inter-agency coordination

Country office coordination

57. The United Nations Office at Nairobi has no appointed Director-General. In principle, under Secretary-General's bulletin ST/SGB/2000/13, it is the Executive Director of UNEP who should be the Director-General of UNON. But during the biennium 2006-2007, it was the Executive Director of UN-Habitat in Nairobi who carried out those duties. This situation is not compliant with the terms of the aforementioned bulletin. The Board noted that an amendment to that bulletin is being prepared to permit the Executive Director of either UNEP or UN-Habitat, whichever one has served longer, to run the United Nations Office at Nairobi.

Common premises and services

Common premises

58. The sharing by several United Nations organizations of the Gigiri compound in Nairobi saves costs. However, of the 65 organizations located in Kenya, 29 are located outside the Gigiri compound. Following the terrorist attacks in Kenya in 1998 and 2002, some United Nations services based in Nairobi began to group together within the United Nations Office at Nairobi complex. A decade after it started, this movement was halted, and today one quarter of the United Nations staff and nearly half of the related agencies are still located outside the Gigiri compound. The Board recommended that the Administration ensure that the United Nations Office at Nairobi undertake a comprehensive analysis of the costs incurred by the presence of 29 United Nations agencies and their staff outside the Gigiri compound.

Common services programme

59. "Common services" is a generic term used to describe the implementation of common administrative functions among United Nations system organizations. This provides country offices the opportunity to consolidate operations at the local level, which allows them to gain significant financial and non-financial organizational benefits.

60. The establishment of common services constitutes an important component of the Secretary-General's reform agenda. In his programme of reform, the Secretary-General emphasized the need to pursue harmonized programme and budget frameworks, services, facilities, administration and personnel practices. The call for common services has been reiterated in subsequent General Assembly resolutions, in which the Member States called for the United Nations system to promote the sharing of administrative systems and services.

61. The common services programme began in 2000. It included a pilot phase involving eight United Nations country teams, followed by an initial evaluation of the pilot experiences. In 2004, an expansion phase was launched with a target of 142 United Nations country teams. UNDP stated that as at 31 May 2008, 91 countries had adopted the United Nations Development Group common services programme and had made use of the common services expert.

Memorandums of understanding

62. The operational user guide states that in order to ensure that the establishment of the Common Services process is transparent and formal, a standard inter-agency memorandum of understanding specifying all arrangements, as well as stipulating each agency's rights and obligations, needs to be carefully drafted, negotiated and, finally, signed by all the agencies concerned.

63. The Board noted that memorandums of understanding were not signed and up to date in several country offices visited. The lack of a detailed and signed memorandum of understanding creates a risk that agencies will be unaware of their duties and responsibilities, which may ultimately have an impact on the achievement of objectives and the recovery of costs.

64. During site visits, the Board noted that at six country offices the memorandums of understanding with other United Nations agencies had not been

updated since they were concluded and were outdated in terms of conditions and clauses relating to such matters as the currencies used, space occupied and agencies no longer occupying the building.

H. International Public Sector Accounting Standards

65. In accordance with General Assembly resolution 61/233 A, regarding the adoption of the International Public Sector Accounting Standards, the Board assessed the status of implementation of those standards. The Board noted progress towards the adoption of United Nations system-wide harmonized International Public Sector Accounting Standards accounting policies and practices.

66. Also In accordance with General Assembly resolution 61/233 A, and in response to the comments of the Advisory Committee on Administrative and Budgetary Questions in its report A/61/350, the Board decided to carry out a gap analysis relating to the implementation of the International Public Sector Accounting Standards, as well as new or upgraded enterprise resource management systems. The Advisory Committee on Administrative and Budgetary Questions commented on the desirability of such systems taking fully into account the detailed requirements of the International Public Sector Accounting Standards.

System-wide matters

67. Upon examining the status of implementation of the International Public Sector Accounting Standards, the Board noted the following:

(a) Progress had been made towards the adoption and approval of United Nations system-wide harmonized accounting policies and recommended accounting practices compliant with the International Public Sector Accounting Standards by the United Nations Finance and Budget Network. To date, the new accounting policies approved are those pertaining to International Public Sector Accounting Standards 1 (presentation of financial statements), 2 (cash flow statements), 5 (borrowing costs), 12 (inventories), 17 (property, plant and equipment), 24 (presentation of budget information in financial statements) and 25 (employee benefits);

(b) Guidelines had been issued for the implementation of International Public Sector Accounting Standards 4 (effects of changes in foreign exchange rates), 6 (consolidated financial statements and accounting for controlled entities), 7 (accounting for investments in associates), 8 (interests in joint ventures), 13 (leases), 15 (financial instruments), 18 (segment reporting) and 23 (revenue from non-exchange transactions).

Matters related to the individual entities

68. With respect to the United Nations, the Board noted that:

(a) The delay in the funding of the enterprise resource planning system, which serves as the backbone for the implementation of the International Public Sector Accounting Standards by the United Nations, will likely result in the postponement of the International Public Sector Accounting Standards implementation to 2011 at the earliest instead of 2010, as originally targeted;

(b) There was no joint master plan that integrated the workplans for the International Public Sector Accounting Standards accounting team and the team responsible for the financial module of the enterprise resource planning system, which would allow for better coordination of deliverables for the project;

(c) The team responsible for implementing the International Public Sector Accounting Standards at the Secretariat level was yet to be fully staffed. The Administration indicated that the remaining staff were expected to be hired before the end of the third quarter of 2008.

69. The UNDP implementation plan did not include aspects that related to consultation with stakeholders, including donors and other internal stakeholders, and did not yet take into account the revision of the Financial Rules and Regulations.

70. At UNICEF, the Board noted that there was no project plan for the adoption of the International Public Sector Accounting Standards. However, UNICEF commented that it had prepared a gap analysis during the first quarter of 2008, which covered each of the major impact areas of the International Public Sector Accounting Standards. It further commented that its Executive Board had approved the budget estimates of the adoption plan in January 2008, recruited an adoption specialist in September 2007 and was in the process of recruiting an International Public Sector Accounting Standards project team.

71. At UNHCR, the Board noted that a plan to implement the International Public Sector Accounting Standards was in place. However, as at March 2008 that plan had not yet been formally adopted and the key players in charge had not been appointed. The total cost for the implementation of the International Public Sector Accounting Standards was estimated at $3.2 million for the 2007-2009 period, but the amount needed was expected to change when the plan was finalized and the budget adopted.

72. The Board noted that UNEP, UN-Habitat, UNJSPF and UNOPS had yet to establish a specific plan to prepare for the implementation of the International Public Sector Accounting Standards.

73. UNU explained that it was part of the partnership with UNDP and other United Nations agencies in its implementation of Atlas, an integrated global system that will replace its Financial, Budgetary and Personnel Management System effective 1 January 2009. UNU expects Atlas to provide it with the capacity to manage, in a global setting, its academic activities and resources more effectively and efficiently. Owing to this partnership, UNU considers that the UNDP International Public Sector Accounting Standards initiatives, including its timetable for implementation, constitute its own plan of action.

74. The Board noted that UNFPA had an International Public Sector Accounting Standards implementation plan and that it had identified two standards for early adoption in 2008. The early partial implementation with other Atlas user agencies not implementing the International Public Sector Accounting Standards until 2010, presents some unique challenges for UNFPA, as an Atlas upgrade is also scheduled for 2008.

I. Procurement and contract management

Governance

75. At the United Nations, the Board found that: (a) the reporting scheme and the senior appointment of the Headquarters Procurement Division had not been finalized; and (b) at the United Nations Office at Geneva, procurement planning was not adequate, the composition of the Tender Opening Committee was not in line with the Procurement Manual and a complete update of the database of vendors had not yet taken place.

76. The position of the Procurement Division within the Department of Management recently evolved. Until 2006, it was under the authority of the Assistant Secretary-General for Central Support Services. But after the Secretary-General placed the Assistant Secretary-General for Central Support Services on special leave, it was decided that the head of the then Procurement Service would report to the Assistant Secretary-General for Programme Planning, Budget and Accounts and Controller. The Service is planned to become an actual Division, but at the time of the audit, the temporary arrangement was still in place and the Administration did not mention when it would end. In addition, it was also not clear whether the Division would be placed back in the Office of Central Support Services or would remain a part of the Office of Programme Planning, Budget and Accounts.

77. The Board noted that the provisions requested in the report of the Secretary-General A/60/846/Add.5 to establish the procedural framework necessary to satisfy immediate operational requirements in a timely manner, to adapt purchasing practices for specific sectors (boat leasing, civil engineering, etc.) and to revise the authority delegation process in order to speed up the decision-making process were not listed in the November 2007 version of the Procurement Manual.

Performance measurement

78. At the United Nations, the Board noted that the procurement performance indicators aimed at measuring (a) the level of clients' satisfaction and (b) purchasing lead times were not appropriately designed. With respect to the first indicator, the requisitioners are asked to fill in a satisfaction questionnaire at the end of each contract. In practice, very few fill it in, and the statistics that can be gathered from it are of little value. The Board questioned whether a questionnaire is the best way of gathering information on clients' perception of a service provided in an organization in which many documents of this type have to be filled in. With respect to the second indicator, the Board noted that purchasing procedure lead times were not immediately available from the Secretariat's Integrated Management Information System. It is nevertheless advisable that the Administration find a way of monitoring this fundamental matter without having to wait for the enterprise resource planning system to be deployed.

79. At UNDP, the Board noted a decrease in the first-time approval of procurement contracts by the Advisory Committee on Procurement owing to quality concerns and lack of essential documentation in the procurement submissions. The percentage of staff working on procurement matters with procurement certification was low. In addition, the Board noted a high percentage of waivers of competitive bidding, which reached approximately 63 per cent in 2007 and 64 per cent in 2006.

The Board also noted that UNDP had not separately reported all different forms of waivers of procurement procedures.

Compliance with procurement rules

80. The Board noted that members of the United Nations Office at Geneva Tender Opening Committee are appointed by the head of the Purchase and Transportation Section and, since that position has been vacant, they are appointed by the administrator in charge of the Purchasing and Contracts Panel. Of the five members currently sitting (who were appointed by means of the internal memorandum dated 11 September 2007), only one is not a member of the Purchase and Transportation Section. All of the substitute members work in the Section.

81. Paragraph 10.1.1(3) of the Organization's Procurement Manual provides that the Director of Administration/Chief Administrative Officer of the relevant mission shall appoint the Tender Opening Committee, the members of which shall be staff not part of the local Procurement Section or requisitioning office. The Committee shall, as a minimum, consist of two members from different offices.

82. The Board recommended that the United Nations Office at Geneva carry out a reorganization of the Tendering Opening Committee in accordance with the prescriptions set out in the Procurement Manual by ensuring, in particular, that its members are not part of the Purchase and Transportation Section.

Procurement planning

83. The Purchase and Transportation Section of the United Nations Office at Geneva was unable to carry out procurement planning for the biennium 2006-2007. This situation is of concern; as the Board noted in its report on the biennium 2004-2005, "procurement planning is essential to facilitating an effective and efficient procurement process, which includes bulk purchasing and improved cash flow management. A well-developed procurement plan would reduce the frequency of small purchases and result in savings in cost and time." (A/61/5 (Vol. I), chap. II, para. 515).

84. In accordance with paragraphs 8.1.1 to 8.1.4 of the Procurement Manual, and upon the recommendations made in the above-mentioned report of the Board, the Purchase and Transportation Section sent a request to all client entities asking them to notify it of their purchasing projections in terms of goods and services for the biennium 2006-2007. However, only six departments and seven internal offices within the United Nations Office at Geneva replied, and with insufficient information to undertake a procurement planning exercise.

Vendor database

85. At the United Nations, the Board noted that the follow-up administration work on vendors by the United Nations Office at Geneva procurement service should be improved, as well as the vendor database, in which a large amount of data was out of date.

86. The Board noted that UNDP did not have adequate controls to assess and monitor prospective vendors against the Security Council list of prohibited suppliers in accordance with resolution 1267 (1999).

J. Human resources management

Human resources management effectiveness

87. At the United Nations, to improve the geographical representation indicator, competitive examinations are open only to the citizens of countries that are unrepresented, underrepresented and under the median point in the range. For the 2001-2005 period, the Board observed a deterioration in results, with the share of successful candidates from unrepresented and underrepresented countries falling from 43 per cent to 34 per cent, with a low point of 12 per cent in 2003. For the 2001-2006 period, the results also deteriorated sharply, with the share of staff from overrepresented countries having nearly doubled, from 17 per cent in 2001 to 31 per cent in 2006. The Board noted two reasons for this deterioration: (a) insufficient advertising in unrepresented and underrepresented countries and (b) an overrepresentation of candidates, and especially successful candidates, from countries placed within the range. The Office of Human Resources Management advertises by placing two ads in a weekly international publication and another on its website. Furthermore, it provides Member States with copies of a video that they can show on television and a sample of ads for radios or universities. In fact, communication actions are essentially left to the Member States' initiative. Yet the Office of Human Resources Management could target unrepresented and underrepresented countries and, in addition to the actions left to the Member States' initiative, carry out awareness-raising campaigns directly in countries, as called for in paragraph 89 of report A/61/255.

88. At UNHCR, the Board noted that the reorganization of international staffing has resulted in actual staffing exceeding authorized posts by 210.

89. At UNITAR, the Office of Internal Oversight Services conducted an audit of human resources management in 2006. Among its audit findings were: (a) the staff selection process at UNITAR was not adequate to ensure that staff members were recruited on the basis of merit, demonstrated competencies and performance; and (b) performance evaluation was conducted only at the end of two years instead of being done annually, as required by regulations.

90. Succession planning is a systematic process of identifying and developing talent to ensure leadership continuity for all key positions in an office that have been filled successfully in terms of competency levels, gender equality or geographical considerations. Without succession planning or a specific formalized process in place to address the replacement of staff close to retirement or the filling of key positions in a timely manner, organizations could lose the expertise of a retiring staff member prior to the appointment of a suitable replacement. Succession planning may also assist where there are delays in the process of filling vacancies. The Board noted that UNDP, UNOPS, UNJSPF and UNFPA did not have a finalized succession plan to address the attrition of staff.

K. Information and communications technology

Documentation

91. The United Nations did not have a documented description of the complete architecture of its various information technology systems that would include the

data processed and the interfaces between systems. The Board recommended that the Administration document the entire architecture of systems and data that it uses to indicate all interfaces and exchanges of data between systems, their nature and the documents on all associated controls as part of its implementation of a new enterprise resource planning system.

Strategies

92. The Board noted that proposals made by the Secretary-General in his report A/62/793 and Corr.1 served as a strategic direction for information and communications technology and included the decision to appoint a Chief Information Technology Officer for the Secretariat, who took up his post in September 2007. These proposals were aimed at harmonizing and centralizing the management of information and communications technology functions within the Administration.

Enterprise resource planning and other application systems

93. The Board examined the management of the enterprise resource planning system project at the end of the first quarter of 2008 and concluded at this preliminary stage of the project that: (a) in compliance with decisions made by the General Assembly, the enterprise resource planning team undertook the preparatory phase of the project within the limited resources allocated for the project; (b) the majority of deviations from best practices at the preparatory stage were due to the lack of funding for the project; and (c) the main risks of the project related to its implementation schedule and to the processing of data during the transition phase.

94. The Board examined the Secretary-General's complementary report on enterprise resource planning (A/62/510/Rev.1), which addressed most of the requests made by the Advisory Committee on Administrative and Budgetary Questions in its report A/62/7/Add.31. Overall, the report of the Secretary-General provided a fair description of the preparatory work for the project. However, the proposed schedule set out in it and the comments thereon did not sufficiently highlight that the key deadline estimates were based on the assumption that the project would be approved by the General Assembly at the resumed part of its sixty-second session. Yet shortly after the report was issued by the Secretary-General, the General Assembly indicated that for scheduling reasons it could not consider the report at the resumed part of its sixty-second session as initially planned but would do so during the main part of its sixty-third session, in the autumn of 2008. This means that completion of the project will be delayed, which will likely postpone the implementation date of the International Public Sector Accounting Standards.

95. The Board believes that the Secretary-General's report A/62/510/Rev.1 constitutes a sound basis for a decision to be taken by the General Assembly, at the earliest opportunity.

L. Cases of fraud and presumptive fraud

Cases reported

96. For the period ended 31 December 2007, 10 of the 16 audited United Nations organizations reported to the Board cases of fraud and presumptive fraud, as

reflected in table 2. The organizations informed the Board that they had taken action against the staff and perpetrators involved, in addition to strengthening controls to prevent recurrences. The Board noted that some country offices had not submitted information on fraud and presumptive fraud to their respective headquarters, and that the statistics may not be complete in respect of matters still under investigation.

Table 2
Reported cases of fraud and presumptive fraud for the financial period ended 31 December 2007

Organization	*Total number of cases reported*	*Cases where estimated losses were determined*	*Estimated[a] loss*	*Amount recovered*
			(United States dollars)	
United Nations	14	14	644 505	19 909
ITC UNCTAD/WTO	—	—	—	—
UNU	—	—	—	—
UNDP	33	27	2 370 518	327 844
UNICEF	58	11	299 447	—
UNRWA	2	2	—	—
UNITAR	—	—	—	—
UNHCR	32	—	—	—
UNEP	—	—	—	—
UNFPA	11	6	72 777	—
UN-Habitat	—	—	—	—
United Nations Office on Drugs and Crime	1	—	—	—
International Criminal Tribunal for Rwanda	1	1	300	—
International Tribunal for the former Yugoslavia	—	—	—	—
UNJSPF	10	—	—	—
UNOPS	1	1	13 000	—
Total	**152**	**75**	**3 400 547**	**347 753**

Plans and policies for fraud prevention

97. Although the Ethics Office has been established and financial disclosure statements have been introduced, the United Nations was still in the process of enhancing fraud prevention, notably through the strengthening of the investigative function of the Organization. UNDP, UNFPA and UNOPS together established a fraud hotline in March 2006. In February 2006, UNHCR launched the Accountability Portal, accessible to all staff on the UNHCR Intranet. It served as a repository of information related to the human and financial resources of UNHCR.

M. Write-off of losses of cash, receivables and property

98. As shown in table 3, in line with financial regulation 6.4 and financial rules 106.8 (a) and 106.9 (a), the United Nations and its funds and programmes reported to the Board losses of cash, receivables and property that had been written off during the biennium 2006-2007 amounting to $36.2 million, compared to $38.1 million during the 2004-2005 biennium (5 per cent decrease).

Table 3
Assets written off for the bienniums 2002-2003, 2004-2005 and 2006-2007
(Thousands of United States dollars)

Organization	*2002-2003*	*2004-2005*	*2006-2007*
United Nations	2 950	1 548	1 424
ITC	23	3	3
UNU	651	875	55
UNDP	8 300	7 900	32
UNICEF	16 400	12 500	20 978
UNRWA	1	22	6 098
UNITAR	21	1	4
UNHCR	1 879	1 180	4 833
UNEP	5	629	52
UNFPA	700	—	132
UN-Habitat	—	123	57
United Nations Office on Drugs and Crime	666	11 700	10
International Criminal Tribunal for Rwanda	20	86	272
International Tribunal for the former Yugoslavia	71	53	373
UNJSPF	104	123	—
UNOPS	—	1 383	1 889
Total	**31 791**	**38 126**	**36 212**

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors

(*Signed*) Reynaldo A. **Villar**
Chairman, Philippine Commission on Audit

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

30 June 2008

Annex I

Organizations reported on for the financial period ended 31 December 2007

Biennial reports

United Nations[a]

International Trade Centre UNCTAD/WTO[b]

United Nations University[c]

United Nations Development Programme[d]

United Nations Children's Fund[e]

United Nations Relief and Works Agency for Palestine Refugees in the Near East[f]

United Nations Institute for Training and Research[g]

United Nations Environment Programme[h]

United Nations Population Fund[i]

United Nations Human Settlements Programme[j]

United Nations Office on Drugs and Crime[k]

United Nations Office for Project Services[l]

International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994[m]

International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991[n]

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[a] *Official Records of the General Assembly, Sixty-third Session, Supplement No. 5* (A/63/5 (Vol. I)). In addition, the Board reported on the capital master plan, ibid., *Supplement No. 5* (A/63/5 (Vol. V)).

[b] Ibid., *Supplement No. 5* (A/63/5 (Vol. III)).

[c] Ibid., *Supplement No. 5* (A/63/5 (Vol. IV)).

[d] Ibid., *Supplement No. 5A* (A/63/5/Add.1).

[e] Ibid., *Supplement No. 5B* (A/63/5/Add.2).

[f] Ibid., *Supplement No. 5C* (A/63/5/Add.3).

[g] Ibid., *Supplement No. 5D* (A/63/5/Add.4).

[h] Ibid., *Supplement No. 5F* (A/63/5/Add.6).

[i] Ibid., *Supplement No. 5G* (A/63/5/Add.7).

[j] Ibid., *Supplement No. 5H* (A/63/5/Add.8).

[k] Ibid., *Supplement No. 5I* (A/63/5/Add.9). The Board audits and reports on the Fund of the United Nations International Drug Control Programme, which is managed by the United Nations Office on Drugs and Crime.

[l] Ibid., *Supplement No. 5J* (A/63/5/Add.10).

[m] Ibid., *Supplement No. 5K* (A/63/5/Add.11).

[n] Ibid., *Supplement No. 5L* (A/63/5/Add.12).

The Board also examined the accounts of the United Nations Joint Staff Pension Fund, and the audit report thereon will be included in the report of the United Nations Joint Staff Pension Board.[o]

Annual report

Voluntary funds administered by the United Nations High Commissioner for Refugees[p]

[o] Ibid., *Supplement No. 9* (A/63/9).

[p] Ibid., *Supplement No. 5E* (A/63/5/Add.5).

Annex II

Status of implementation of recommendations made up to 31 December 2005, by organization*

Organization	Number of recommendations	Fully implemented	Partially implemented		Not implemented		Overtaken by events
			Prior to 2004-2005	During 2004-2005	Prior to 2004-2005	During 2004-2005	
United Nations	224	153	21	44	0	0	6
International Trade Centre UNCTAD/WTO	13	10	0	3	0	0	0
United Nations University	20	8	10	2	0	0	0
United Nations Development Programme	115	79	3	27	0	0	6
United Nations Children's Fund	96	82	3	10	0	1	0
United Nations Relief and Works Agency for Palestine Refugees in the Near East	34	17	3	11	2	0	1
United Nations Institute for Training and Research	22	11	7	3	1	0	0
Office of the United Nations High Commissioner for Refugees[a]	38	11	1	23	0	3	0
United Nations Environment Programme	27	18	1	5	3	0	0
United Nations Population Fund	42	20	11	11	0	0	0
United Nations Human Settlements Programme	18	14	1	2	0	1	0
United Nations International Drug Control Programme	31	19	2	5	0	5	0
International Criminal Tribunal for Rwanda	33	21	4	6	1	1	0
International Tribunal for the former Yugoslavia	11	9	0	2	0	0	0
United Nations Joint Staff Pension Fund	21	11	0	9	1	0	0
United Nations Office for Project Services	43	22	9	11	0	0	1
Total	**788**	**505**	**76**	**174**	**8**	**11**	**14**
Percentage of total	**100**	**64**	**10**	**22**	**1**	**1**	**2**

* The Board reviewed the number and status of its recommendations when preparing its series of reports to the General Assembly related to the biennium 2006-2007. As a consequence, the total number of recommendations per organization shown in this table might differ from those indicated in the report of the Board on the implementation of its recommendations relating to the biennium 2004-2005 as at 31 March 2007 (see A/62/120).

[a] The Office of the United Nations High Commissioner for Refugees has an annual financial cycle and therefore the figures reported are for recommendations made up to 31 December 2006.